

**COMMITTEE ON ACCOUNTS, ENROLLMENT
AND REVENUE ADMINISTRATION**

February 20, 2007

6:00 PM

Chairman Pinard called the meeting to order.

The Clerk called the roll.

Present: Aldermen Pinard, Smith, Long

Absent: Aldermen Thibault, DeVries

Messrs.: Scott Bassett, Kevin Buckley, Guy Beloin, Sharon Wickens,
Michael Farren

Chairman Pinard addressed item 3 of the agenda:

3. Presentation by McGladrey, Pullen of the Management Letter, CAFR and Compliance Report.

Mr. Scott Bassett of McGladrey & Pullen, stated the firm conducted the fiscal year audit as of June 30, 2006. What I'll do tonight is go over the highlights of the financial statement, discuss our management comments and then open it up for questions. Do you all have the CAFR with you this evening? McGladrey & Pullen conducted the audit in accordance with Generally Accepted Auditing Standards...on page 9 we'll start on the Independent Auditor's Report...this is the one page in the document that is McGladrey & Pullen's the rest of the financial statement information is that of management's. We audited in accordance with Generally Accepted Auditing Standards in accordance with Generally Accepted Accounting Principles (GAAP). We had one exception with the accounting which is consistent with the prior years of the transaction that involved the Civic Center some year's ago and the capitalization of that asset and the care of the debt related to that. But other than that a very similar opinion...it is in fact the same opinion given in 2005. Page 11 through 22 presents the management discussion and analysis in these pages summarizes pretty much what I used to highlight from the 120 that are included in this booklet. If you want we can walk through the MD&A, talk about any specifics that you may have but the City did a nice job of highlighting the financial activities during the year. I'm going to talk about fund balance in a couple of different ways. We're going to talk about fund balance on a

full accrual basis of accounting, we'll talk about fund balance on the GAAP basis of accounting, then we'll also talk about revenues and expenditures on the budgetary basis. So as we do our measurement of liquidity within the City I think it's important to understand the basis of accounting that we're talking about. On page 11 in the first bullet we talk about the government-side financial statements of the primary government...it states in that first paragraph that assets exceeded liabilities by \$465 million, total net assets for the government activities were \$113 million and total net assets for the business type activities were \$352 million. The business type activities include the Aviation Department, Water Works and EPD. On a government wide basis the City's net assets increased by \$32.1 million from \$433 million to \$465 million. This net increase of \$19.6 for the government activities and \$12.5 for the business type activities. Those results are on the full accrual basis of accounting...I'll call it the non-budgetary basis of accounting where we bring all funds in and we account for those revenues are measured when earned and liabilities are measured when incurred. Very different from how we measure our general fund balance sheet at the end of the year. In the third bullet we talk about our governmental funds which does include your general fund and on that basis of accounting we had current fund balances of \$43.7 million...that was a \$23.8 million decrease from the prior fiscal year. Of the total funds \$14.8 million is available for the City's discretion which represents the combined unreserved fund balances in the general fund, special revenue funds and permanent funds...a \$23.8 million decrease...that's a big number. But, if you look at that that's a planned number...it's basically a timing of when you take your bonds in and when you spend your capital outlay for your expenditures so under the GAAP basis of accounting when we bring debt in we actually account for that almost like a revenue so it hits the revenue and in the next year as we spend that it would decrease that fund balance...so very different than the first two bullets that we talked about but that was an anticipated planned decrease as you lump all of those together. It was a non-general fund event. In the fourth bullet we talk about at the current year the total fund balance for the general fund was \$25.3 million, an increase of \$1.3 from the prior fiscal year. Included in that fiscal year 2006 budget was an appropriation of \$750,000 to be used of the general fund. As of June 2006 \$800,000 of the total general fund balance represents unreserved undesignated fund balance at the end as .6% of the total general fund expenditures and transfers. So pretty much we had planned to use \$750,000 with the fund balance during the year when the budget was adopted and we used a little bit more than that as the year progressed. Now, a major event this year...every year we come here we talk a little bit about the Aggregation fund and the accumulation of that debt...it's important to note that that deficit was eliminated this year through appropriations and additional appropriations to that fund from the various funds that used it. So, on an overall basis I would say from a financial highlight pretty consistent with the prior year, very consistent to that what was planned to be used

which is always important. I don't think you like to see large variations from one to the other as you go through your spending activity and your revenue activity for the year. I will now turn you to page 17...page 17 talks about where our major funds and the major activity in each of those funds for the year. The first part of page 17 talks about our business type activities. The first item we talk about is Water Works...net assets increased by \$3.2 million, up \$100,000 from the net increase of assets of \$3.1 in the prior year. Water uses, service and charges and fire protection increased by 9.5% beginning in the last half of the year. EPD assets increased by \$2.8 million and Aviation net assets increased by \$6.2 million for the current year...Aviation fund capital contributions amounted to \$4.9 million, a decrease from a \$13.9 million from the previous year. The Manchester Boston Regional Airport experienced a slight decrease in passengers/enplanements in fiscal year 2006 as enplanements decreased from 34,886 from fiscal year 2005. On the governmental funds which is really our general fund, our special revenue fund and our capital projects fund the general fund itself as we talked about at the end of the current fiscal year had unreserved and undesignated fund balance of \$777,000, our total fund balance was \$25.3 million. As a measure of the general fund's liquidity and may be use of both unreserved fund balance and total fund balance to the total expenditures and education operating transfers unreserved fund balance represents 15.4% of the total general fund expenditures of \$116 million. On page 19 you can show the revenues and expenditures on the general fund compared to the prior year. As you can see we had an increase in taxes...federal and state grants remained consistent and pretty much everything was consistent with the prior year with the exception of the other account which had a \$2 million decrease on the expenditure side the general government had an increase of \$1.4 million, public safety had an increase of \$3.7 and we had a decrease of \$2 million on the debt service. On page 21 we talked about long-term debt...at the end of the current fiscal year the City had total debt service requirements including interest payments on bonded debt of \$929 million...general obligation debt is based by the full faith of the City. The City was assigned the following credit ratings from Fitch, Moody's and Standard & Poors...they have an assignment of double AA plus, double AA 2 and a double AA plus respectively. On pages 28 & 29 presents the GAAP activity for the governmental fund types. At the end of the fiscal year June 30, 2006 we had cash...cash equivalents of approximately \$94 million...total government fund activities of \$44 million. We had revenues in excess of \$120 million and expenditures of \$122 million giving an increase of \$1.3 million on the general fund from \$24 million fund balance to \$25.3. On page 31 we show budgeted and revised budget to our actual amounts in the current fiscal year. We had a revised budget of a revenue estimate of \$116 million, we had actual revenues of \$115 million. On the expenditure side we had a revised budget of \$115 million and that was offset by actual expenditures of \$114 million. The last item there shows that we had a planned use of general fund balance of \$750,000.

We actually used \$1.2, which gave us a deficit in the general fund-operating budget of \$477,000 during the current fiscal year. We talked a little bit about our business type activities and the results of operations more detailed than what's in the management discussion analysis on pages 32 & 33. The Pension Trust funds entered the year with \$133 million in net assets. The financial statement notes are very consistent to the prior year. There are really no large changes in the governmental reporting in the current fiscal year. We did adopt one new accounting principle that I did not mention which is our 10-year trend information for our CAFR on that presents different items than what we've seen in the past that the City has put together but if you got through that 10-year trend information the City's tax collection rate in the current year is 99.1% which based on that activity was a 10-year high which is also a good indication as you go forward. The net Pension obligations stayed consistent to the prior year and overall I think the City had sound financial results for the year, everybody was cooperative in providing us the information that we needed to give our opinion on the financial statements and I would open up to questions prior to going into the Management Letter.

Alderman Long stated on page 11 on the Aggregation there were allocations to these funds...do you not which funds allocated to take the deficit out?

Mr. Bassett replied I don't have the detail of that but I believe that Aviation, the general fund, EPD and Water.

Alderman Long stated so it was all the business.

Mr. Bassett stated the main operating account of the City and the three major business activities/enterprises.

Alderman Smith stated, Scott, if you're going to make a full presentation to the Board tonight we can address some of the questions there...I would just say that our status is just about the same as it was last year.

Mr. Bassett stated I would say you had a planned use of fund balance so on a \$120 million budget you missed that by \$450,000...a very small percent of how you missed your budget. I think you're managing your fund balance...I think I said that last year...that's very important to manage that and watch that. So, pretty consistent to what you...I always look at what you anticipated is pretty much what happened from 18 months ago so if you kind of look at where we're at or when you adopted this budget from June 30, 2006 it was pretty close to what was anticipated. Whatever that level may be, that percentage may be probably 10-15% is what they're looking for I think the whole idea is that the City is conscious

about what is happening with that fund balance and how they manage it, they have to use some of it like react to the Aggregation fund that we've talked about for the last couple of years...they have the ability to do that so this liability doesn't grow and then at some point become unmanageable. So, I think that's important and would look at that very favorably.

Alderman Smith asked how does the tax collection rate seem?

Mr. Bassett replied your tax collection rate was 99.18%...very, very well. I don't know how much better you can do.

Alderman Smith moved to accept the CAFR and Compliance Report. Alderman Long duly seconded the motion. There being none opposed, the motion carried.

Mr. Bassett stated we just had five comments in the Management Letter I would say of any significance but we could talk a little bit about them so you could understand what our basis was for providing those observations. Number one is a repeat from the prior year departmental cash receipts for on-line tax revenues within the City...I'm not really talking about the business type activities I'm talking more about departments here. Again, we've said this in the past that there is a little decentralization there but we'd like to see a complete tie into the City's financial reporting package...there's costs that go with that but we bring it to your attention...that would make it a more timely financial transaction. We know that there are various departments in the City where there is an inadequate segregation of duties in the purchasing functions. In many instances the same person is responsible for purchasing and then signing off for that purchase. Again, proper segregation of duties between the purchasing and requisitioning functions and the person approving the invoice is important so we bring that to your attention. Number three we talk about a centralized location for departmental grant and program activity monitoring. Federal grants are getting more and more complex as far as the compliance that recipients comply with. I know you have one general person understanding the specifics of the seven or eight general requirements within those federal grants would be important. Number four has to do with performance test controls at the Wastewater plant...it was noted that certain purchase orders were not properly authorized in accordance with the approval process...at times the same individual generated and approval the purchase orders in addition other small dollar item purchase orders were not approved by the department head. We recommend that the policy be followed and that all purchase orders be approved in accordance with policy. So, I think there is a case that you do have a policy that wasn't being followed for all purchases so we recommend that this policy be followed for all purchases. Number five is a comment regarding employee travel expenses. Policies and procedures were not being

followed in all instances. But more importantly in addition there's no formal written policy regarding the approval of department heads and management travel expenses. We would just say take a look at that, develop a policy that is not so cumbersome but there's a policy to make sure that the proper approval process is taking place. I want to say everything is supported by documentation when we pulled the invoices the looked at those transactions so we didn't find anything that wasn't documented or could not be supported we just couldn't see a proper approval process for those travel expenses.

Alderman Long stated with these five observations...the observation one is the only one that your concern can be a reportable condition.

Mr. Bassett stated no I think they're all just...if there was a reportable condition we would have called it that in our report to another level...so, they're observations. Again, an observation is something that we bring to your attention just to know that there may be a little risk there...not significant risk not enough risk that could mislead the financial statement reader but segregation of duties is a great one...there's a cost benefit with that segregation of duties so we bring it to your attention because the cost outweigh the benefit and many times it does and on these management observations that could be the case. With your travel expense I think just having a policy in place I think would be important and compliant with that policy and when you do have a policy it is important to follow that policy or update the policy so that it's fitting the internal control structure but also fitting the needs of the various departments.

Alderman Long stated a reportable condition is a repeated observation.

Mr. Bassett stated a reportable condition would be something as of more significance than the financial statements. For instance, if there wasn't proper approval in a review process of invoices throughout the City that would be a reportable condition if not a material weakness. If we could reconcile the Tax Collector's revenues to the receipts on the general ledger that would be something of a reportable condition of a significant nature. These are what I would call insignificant findings in the internal control structure.

Alderman Long asked would it be safe to say the lack of integrated modules with some departments is a serious...should we address that...I know we spoke about it last year at this time.

Mr. Bassett stated I don't know if an analysis has been done as far as the costs associated with integrating the outside departments with the Finance Department...we'd like to see that done but if we came back and it was an "X" amount of dollars we certainly could understand that and then maybe look at some tighter controls within that to get the reporting more timely.

Alderman Long asked was it the same departments as last year do you remember?

Mr. Bassett replied yes it was a repeat from last year.

Alderman Smith stated numbers one, two and three have been repeated I think for about four years.

Mr. Bassett stated I agree and I think what I'm talking about when I talk about departmental revenues I think we're really driving at the non-major type departments that collect cash offsite. If there's a problem with Building and Water Works or any problems with Aviation or EPD or Tax those would warrant something more significant because they're more material in nature. These are not material in nature and that's why they don't meet the categorization of a reportable condition. They were complying but again these are the federal guidelines and what they mandate us to do as your auditors under the Single Audit Act is that when we ask for the documentation it should be present...it wasn't immediately presented to us, they had to go back and get the information from the outside vendor...they were able to do that and they're in compliance with the Davis-Bacon requirement but it took a little bit of time to get it. So, again I think it was what's required to be kept under that grant activity. The reason that's reported there is because the program, the federal program...the specific grant tells us to get that and if we don't get it there's no black and white for us we'd have to report it back to the federal government.

Alderman Long moved to accept the Management Letter. Alderman Smith duly seconded the motion. There being none opposed, the motion carried.

Chairman Pinard addressed item 4 of the agenda:

4. Management Letter responses submitted by Kevin M. Buckley, Independent City Auditor.

Mr. Kevin Buckley, Independent City Auditor, stated Scott has pretty much covered the issues. The Management Letter responses to the first three are pretty much the same as they were in the prior years. I spoke with Parks and Recreation

about the contract requirements, federal contract requirements...they now have procedures in place so they've taken care of that observation. Observation five with the written policy regarding department heads and management travel expenses...I'd like to propose that we revisit that and update some other stuff in that policy, the old policy having to do with travel that really should be updated in its entirety and with that I would also like to incorporate updating miscellaneous revenue and vehicle policies and put it all in one document and that will take care of that observation also.

Chairman Pinard stated the City officials that travel to different conferences do they come back and report to Finance whatever expenditures.

Mr. Buckley stated what used to happen in the past because a lot of people would take a cash advance and they would have to file a form with Finance to get the cash advance and had all the estimates of what it would cost and that had to be signed by the department head and then they would get the advance and when they came back from the conference they would send in the second half of that form which would tell of everything they had spent and how much money they were either owed or how much they owed the City back from the advance. With the new purchasing cards that the City has now there should be pretty much limited cash advances so that part of the travel policy may not even apply anymore because you should have to do a cash advance anymore with the purchasing cards. So, that's part of the changes I'd like to incorporate into the new policy.

Chairman Pinard stated to your knowledge these people regardless who it is...it could be me or it could be Pat (Alderman Long) once they come back and give their vouchers...they don't report to anybody of what they found out or bring material from these conferences so the general public will know what these people have learned by going on these trips.

Mr. Buckley stated one of the things they are required in both the old policy and the new policy is that you have to submit the conference agenda and everything that you're hoping to pick up at the conference...the official conference brochure has to be submitted and it has to be submitted by the department head. The one step that's missing in the old policy is that having department heads when they go themselves no one approves it but when they come back every penny they spent goes on the travel form that goes to Finance with all the invoices and stuff so that Finance can match everything together and make sure that they followed all of the purchasing and travel rules. So, it does get checked eventually by the Finance Department.

Alderman Long stated on the Airport's general observation they have a comprehensive audit by the same company (McGladrey & Pullen) and they state that they don't get flagged as to this problem that's coming up in the City's audit...can you address that?

Mr. Buckley stated most of these problems are at other agencies. None of these other than that one with the travel is not a Citywide problem. They're individual problems at various places. The Airport I believe...I can't recall them getting any observation directed at them since I've been here.

Alderman Long asked are there different standards?

Mr. Buckley replied no the same standards.

Alderman Long asked are any of the enterprises audited independently?

Mr. Buckley replied Water Works does...they have different auditors. EPD...McGladrey does them also...Parks & Recreation...McGladrey does a separate financial statement for them also...for the Recreation fund part of Parks and Recreation.

Alderman Smith asked are you looking for some direction in regard to looking into miscellaneous revenue and travel policies.

Mr. Buckley stated yes I'd like approval of both and go forward with that and change the policy.

Alderman Smith moved to accept report and authorize update of travel policy. Alderman Long duly seconded the motion. There being none opposed, the motion carried.

Chairman Pinard addressed item 5 of the agenda:

5. Monthly Financial Statements unaudited for the seven months ended January 31, 2007 for Fiscal Year 2007.

Mr. Guy Beloin, Financial Analyst II, stated these are the usual type of reports I submit on a monthly basis. The expenditures at this point have about 42% left pretty much as a benchmark of the budget year and I've listed at these four departments that have less than that and the reason why they have less than that... City Solicitor was pretty close to the borderline because of the audit fees that

were recorded all in the general fund and they have not been billed out to the enterprises yet which will probably be taken care of soon and Information Systems has the usual issues here...they purchase equipment for other departments and that they do bill the equipment eventually out to the receiving department...Building Maintenance still has \$4 million for cleaning services and that's pretty much for the whole 12 months...Senior Services has fully encumbered these administrative expenses for the year and that's why they look like they're a little short but that's not necessarily the case. The Parking Enterprise fund which is not included in here but when we do a comparative of this year versus last year the Traffic Division has roughly \$1 million less than it had last year and this is due to the expenditures that went over to the Enterprise fund and the same with the revenues also. For the revenues it's the usual issues also from month-to-month...the Cable Franchise Fees...the City did collect \$639,000...\$244,000 was dispersed to MCTV which realizes a net of \$395,000 for the first seven months of the year. Permits are down \$1.5 million as well as sales and services at Traffic, Civic Center and Parking and Parking Violations received for a total of about \$2.750 million which again went to the Parking Enterprise. This is pretty much all that I have at this point.

Alderman Long moved to accept the monthly financial statements report. Alderman Smith duly seconded the motion. There being none opposed, the motion carried.

Chairman Pinard addressed item 6 of the agenda:

6. Reports submitted by the Finance Department as follows:
 - (a) Department Legend;
 - (b) Open Invoice report over 90 days by fund;
 - (c) Open Invoice report all invoices for interdepartmental bills only;
 - (d) Open Invoice report all invoices due from the School Department only;
 - (e) Listing of Invoices Submitted to City Solicitor for Legal Determination; and
 - (f) Accounts Receivable Summary.

Alderman Smith in reference to page 4 asked is R. E. Jenkins Construction Company still in business.

Ms. Sharon Wickens, Financial Analyst II, replied yes they are still in business that I'm aware of. This particular company went to the collection agency a while back for some invoices and it was kind of a struggle to get them to pay but we did. These are different than the other ones and I know that the Police Department is actively working to get this gentleman to pay.

Alderman Long asked do we still give them detail when they have outstanding balances? Do we still get detail officers out there?

Ms. Wickens replied yes.

Alderman Long stated even though they have an outstanding balance.

Ms. Wickens replied no we don't, I'm sorry. I think it depends on who the customer is. This one I would assume has been shut off but some of them if they're going through a hard time and they've worked for the Police Department in the past they probably work with them. This particular guy I don't know he has been shut off.

Alderman Long asked do we have a policy as to how long the invoices...six months, seven months?

Ms. Wickens replied I don't think there's any written policy that I'm aware of this is just something that they kind of go by. Police has gotten better about sending people to collections and the collection agency has been pretty good at collecting their accounts but every once in a while you've got these that sneak through or claim bankruptcy and then open under a different name...there's a lot of games that are played. The one that Alderman Smith is talking about that's not the case with this one, he's just disputing some of the charges and the Police Department is working with them.

Alderman Smith in reference to page 6 (\$1,017.84) extra detail.

Ms. Wickens stated they're actually in the hands of the collection agency. There was some dispute but they said they had paid an officer or somebody at the Police station but nobody knows of any payment and I had thought that they were working in good faith with the collection agency because they did make a small payment, it wasn't huge but it might have been a couple of hundred dollars but they've done nothing since on that one.

Alderman Smith in reference to page 21 I don't know if Michael could help us out it's quite a substantial amount (\$134,905.95).

Mr. Michael Farren, Assistant Airport Director of Finance and Administration, stated as I've briefed the Committee in the past there are typically three major components of our portion of this 90-day aging...one is the government component which is the federal and the state, then the airline component and then what I think you're talking about is the other major components \$274,401, is that what you're looking at?

Alderman Smith replied yes.

Mr. Farren stated that has been paid.

Alderman Smith stated thank you very much, I like that.

Chairman Pinard stated I think at the next meeting could you have somebody from the Police Department here.

Ms. Wickens stated I think that would be a good idea to see and what their logic is in some of the details and what they're looking at.

Chairman Pinard stated I've been around a long time and I know that at one time the construction people would have to pay the officers...I was there and I witnessed that...I don't know how they do it with the big companies like Verizon but I think it's time we get somebody from the Police Department to explain to us what's going on here. The collection agency...do you give us a report as to what the agency has collected that month.

Ms. Wickens stated I do get a report on that. It's not something real reader friendly I would have to put it in a different format for you if you wanted to see something like that.

Chairman Pinard stated I know what I'd like to see at the next meeting...give us a total money that all these people owe the City...I think that would be a good start for us maybe to start with some kind of a guideline because there's an awful lot of money involved here like Mr. Smith said.

Ms. Wickens stated I know that details tend to...they're not huge ticket items but they're bigger than say parking permits and such but remember the officers put away money into a fund that if someone doesn't pay that fund will reimburse the City.

Chairman Pinard asked how often do they pay us back or pay us what they owe us?

Ms. Wickens stated I do have a report that I keep that shows all of details and what we've written off in say the last six or seven years and also what amount of money is sitting in that fund available to use if something should need to be written off. The last time I looked it was well over \$100,000 of money that has been collected that has not been put against these bad debts but I do have a report that I could show you that you could see exactly how much in details has been written off for a number of years.

Chairman Pinard stated I would like to know that because money is going to be tight so I think we should all put our shoulders together and find ways to collect what is due us.

Alderman Smith moved to accept the Finance Department reports as submitted. Alderman Long duly seconded the motion. There being none opposed, the motion carried.

There being no further business to come before the Committee, on motion of Alderman Smith, duly seconded by Alderman Long, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee